

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS HARARE 001521

SIPDIS

STATE FOR AF/S and AF/EX
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR FLORIZELLE LISER
TREASURY FOR ED BARBER AND C WILKINSON
STATE PASS USAID FOR MARJORIE COPSON

E. O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EINV](#) [EFIN](#) [ZI](#)

SUBJECT: Banknote Shortage Still Acute

1. Summary: It has become exceedingly difficult to secure paper money in Zimbabwe. Bank lines stretch to several blocks, with angry account-holders occasionally resorting to violence. The GOZ is blaming the Reserve Bank, opposition party and several others, but taking no visible action to alleviate the crisis. End Summary.

2. Banknotes now earn a premium of 15-40 percent when exchanged for checks. It appears the Reserve Bank started to run short of funds for imported ink and paper to print money in March. Some local observers suggest the tightening of the M1 monetary aggregate developed into a misguided attempt to rein in inflation or shore up the Zimdollar. In fact, Zimbabwe's currency has devalued from Z\$ 690 to Z\$ 3350 : US\$1 since a year ago, making it prohibitively expensive to print Z\$ 500 notes, the highest in circulation. (It now costs over Z\$ 1,000 to print a Z\$ 500 note worth 17 U.S. cents.)

Potential for Violence

3. The poor are bearing the brunt of the crisis, since the better-heeled can fulfill most consumption needs through check or debit-card. Lower-income Zimbabweans either do not qualify for these instruments or shop at places that do not accept them. Thursday is month-end payday for many Zimbabweans; financial institutions are bracing for a potentially explosive situation. Many banks are already limiting withdrawals to Z\$ 10,000 or Z\$ 5,000 - an agonizing wait for one buck-seventy in US\$ terms.

4. There is no indication the economy has begun to dollarize (or "randize"), even though large quantities of forex are flowing through Zimbabwe. One U.S. firm, Cargill, has circulated its own Z\$ 10,000 note, backed by deposits at Standard Chartered, but the new notes have drawn both counterfeiters and the GOZ's ire.

Comment

5. The banknote crisis strikes a lasting blow to the integrity of the Zimbabwe's relatively sophisticated banking system. That the GOZ will not opt for the obvious short-term solution - print a larger note with fewer security features - speaks volumes about its mindset and decision-making paralysis. By producing a banknote of reasonable tender (e.g., Z\$ 50,000, worth US\$ 17), the GOZ feels it would recognize openly the devastation of the currency and, by extension, the economy. The GOZ prefers to treat foreign currency in abstract terms, or at unsupported official exchange rates. It talks of introducing a Z\$ 1,000 note, but as in negotiations to normalize the fuel price, moves so languidly that it forever chases ever-worsening costs. In a collapsing economy, last month's medicine does little for today's pain.

Sullivan